

Message Text

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11

ACTION NEA-09

INFO OCT-01 EUR-12 ISO-00 IO-10 CIAE-00 DODE-00 PM-03 H-02

INR-07 L-02 NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15

USIA-06 AID-05 COME-00 EB-07 FRB-03 TRSE-00 XMB-02

OPIC-03 CIEP-01 LAB-04 SIL-01 OMB-01 STR-01 CEA-01

/105 W

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R 220640Z MAR 75

FM AMEMBASSY NEW DELHI

TO SECSTATE WASHDC 7654

INFO AMCONSUL BOMBAY

AMCONSUL CALCUTTA

AMCONSUL MADRAS

AMEMBASSY LONDON

AMEMBASSY MOSCOW

LIMITED OFFICIAL USE NEW DELHI 3940

E. O. 11652: NA

TAGS: EFIN, ETRD, UR, IN

SUBJ: THE RUPEE/RUBLE EXCHANGE RATE: A PROBLEM
IN INDO-SOVIET RELATIONS

1. SUMMARY. THE INDIANS AND THE SOVIETS ARE NEGOTIATING OVER
A DISAGREEMENT IN THE EXCHANGE RATE BETWEEN THE RUPEE
AND THE RUBLE. RUPEE TRADE IS CONDUCTED ON THE BASIS
OF THE PRE-SMITHSONIAN GOLD PARS, WHEREAS THE CURRENT
CROSS RATE THROUGH STERLING APPRECIATES THE RUBLE BY
40 PERCENT ABOVE THE GOLD PARS. OBVIOUSLY, THE SOVIETS
WANT THE NEW RATE AND THE INDIANS WANT TO HOLD ON TO THE
CROSS RATE BASED ON GOLD PARS. WE DON'T KNOW HOW IT IS GOING
TO COME OUT, ALTHOUGH THE INDIANS SEEM TO THINK ONLY FUTURE
TRADE
WILL BE AFFECTED. END SUMMARY.

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2. THE INDIANS AND THE SOVIETS USUALLY CONDUCT THEIR FAMILY BUSINESS WITH THE RESTRAINT AND DISCRETION OF A GENTEEL FAMILY. THEY MAKE EVERY ATTEMPT TO SEE THAT THE OUTSIDE WORLD GETS ONLY AN IMPRESSION OF HARMONY AND MUTUAL OUTSIDE WORLD GETS ONLY A IMPRESSION OF HARMONY AND MUTUAL PURPOSE. CAREFUL STUDENTS OF THE SCENE KNOW THAT THE FAMILY HAS ITS FRICTIONS AND THAT THEY USUALLY INVOLVE CONTRADICTIONS BETWEEN POLITICAL INTENT AND ECONOMIC REALITY. ONE SUCH CONTROVERSY HAS NOW SURFACED WITH EXTENSIVE (IF CONFUSED) ATTENTION BY THE PRESS AND TO THE OBVIOUS EMBARRASSMENT OF THE GOVERNMENT OF INDIA.

3. THE CONTROVERSY INVOLVES THE EXCHANGE RATE TO BE USED BETWEEN THE RUBLE AND THE RUPEE IN RUPEE TRADE. THE SOVIETS ARE THE DEMANDEURS AND HAVE SENT DOWN A TEAM FROM MOSCOW TO NEGOTIATE. THE PROBLEM HAS APPARENTLY PROVED KNOTTIER THAN THOUGH, SINCE THE NEGOTIATIONS WHICH BEGAN MONDAY WERE SCHEDULED TO END WEDNESDAY AND THEY STILL HAVEN'T ENDED. IT IS DIFFICULT TO SORT OUT THE ISSUES WITH THE NEGOTIATIONS STILL GOING ON, AND EVEN THEN THE WHOLE SUBJECT IS SHROUDED IN SUCH SECRECY THAT A LOT OF SURMISE WILL PROBABLY BE INVOLVED IN PIECING THINGS TOGETHER. FOR EXAMPLE, WE HAPPENED TO BE TALKING TO THE ECONOMIC ADVISOR IN THE MINISTRY OF COMMERCE YESTERDAY AND ASKED HIM IF HE COULD SHED ANY LIGHT. HE DECLINED COMMENT, NOT ON THE USUAL GROUNDS THAT HE DIDN'T KNOW ANYTHING ABOUT IT BUT RATHER THAT HE DID KNOW THE NUANCES. SINCE PUTTING THINGS TOGETHER IS PROBABLY GOING TO TAKE SOME TIME, WE ARE SUBMITTING THIS AS AN INTERIM REPORT.

4. FROM WHAT WE CAN MAKE OUT SO FAR, THE BASIC PROBLEM IS THAT RUPEE TRADE IS CONDUCTED UNDER FIXED EXCHANGE RATES BASED ON PRE-SMITHSONIAN GOLD PAR. THIS MEANS A RATE OF RS.8.33 -RUBLE 1.00. THE RUPEE/RUBLE CROSS RATE THROUGH STERLING (TO WHICH THE RUPEE IS LINKED) IS NOW RS. 11.7 EQUALS RUBLE 1.00 OR ABOUT 30 PERCENT LESS THAN GOLD PAR CROSS RATE. ALTERNATIVELY, THE RUBLE CAN BE SAID TO HAVE APPRECIATED BY 40 PERCENT SINCE THE SMITHSONIAN AGREEMENT. THE RUSSIANS APPARENTLY WANT AT LEAST A START TO A MORE "REALISTIC" RATE. AT THE PRESENT TIME ONLY LIMITED OFFICIAL USE

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NON-RUPEE AGREEMENT EXPENDITURES, INCLUDING TOURISM EXPENDITURES, ARE CALCULATED ON THE BASIS OF THE LONDON CROSS RATE. ACCORDING TO THE FINANCE MINISTER SUCH TRANSACTIONS ACCOUNT FOR LESS THAN 1 PERCENT OF RUPEE/RUBLE EXCHANGES. NEWSPAPER ACCOUNTS SUGGEST THAT BOTH SIDES ARE ADAMANT, THE RUSSIANS WANTING A FULL REVALUATION AND THE INDIANS MAKING A CASE FOR THE GOLD PAR CROSS RATE. THE FINANCE MINISTER'S STATEMENT TO PARLIAMENT MARCH 20

INDICATED THAT DISCUSSIONS ARE TAKING PLACE IN THREE AREAS:
EVALUATION OF CLEARING ACCOUNT BALANCES, TREATMENT OF CURRENT
TRANSACTIONS, AND FUTURE REPAYMENTS. ALTHOUGH HE WAS QUITE
GUARDED, WE GET THE IMPRESSION THAT THE FINANCE MINISTER EXPECTS
THERE WILL BE A CHANGE IN THE PARS UNDER WHICH THE RUPEE
TRADE IS CONDUCTED, BUT THAT THE VALUE OF EXISTING
CLEARING ACCOUNTS AND OF EXISTING INDEBTEDNESS CONTRACTS
WILL NOT BE AFFECTED.

5. AS WE SUGGESTED IN OUR A-88, IT IS PROBLEMS OF THIS
SORT THAT ARE INCREASINGLY BURDENING THE RUPEE PAYMENTS
SYSTEM.
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